Important Tax Information About Your TSP Withdrawal and Required Minimum Distributions

Amounts paid to you from your Thrift Savings Plan (TSP) account are taxable income to you for Federal income tax purposes in the year in which payment is made. Different tax rules apply depending on the withdrawal method you choose. In addition, participants who are 70½ or older and separated from Federal service are subject to Internal Revenue Code (IRC) minimum distribution requirements. Because the minimum distribution requirements can affect how your withdrawal is paid and because the tax rules are complex, you should read this notice carefully. You may also want to consult a tax advisor before making a withdrawal.

1. Deadline for Withdrawing Your TSP Account

Beginning in 1998, the TSP requires you to withdraw your account balance (or begin receiving monthly payments or annuity payments) by April 1 of the year **following the first year** that you are 70½ **and** separated from Federal service. This withdrawal deadline conforms with the IRC rules for "required minimum distributions" described below.

2. Information About Required Minimum Distributions

The IRC requires that you receive a portion of your TSP account **beginning** with the year in which you reach age 70½ **and** are no longer employed by the Federal Government. This is called your first distribution year. If you do not withdraw your account balance or begin receiving payments from your account before or during your first distribution year, the TSP is required to make the required distribution to you by April 1 of the following year.

The amount that you must receive as a minimum distribution for a given year depends on your account balance as of December 31 of the prior year. That account balance is divided by a multiple which is based on the number of years a person your age (on your birthday in the year to which the payment relates) is expected to live, according to the Internal Revenue Service (IRS) life expectancy table that the TSP uses. (The TSP uses Table V of 26 CFR Ch. 1 § 1.72-9; the relevant portion of this table is on page 6.) The result is your required minimum distribution amount for that year.

If your TSP account record has an incorrect date of birth or separation date, or if your agency is late in reporting your separation, you may not receive a payment that satisfies the minimum distribution requirement by the applicable deadline. If this occurs, you may be subject to an IRS penalty tax of 50% on the required withdrawal amount that was not paid on time. To avoid this penalty, be sure that your TSP information is correct and that your agency reports your separation promptly.

3. How Your Withdrawal Payment Satisfies the Required Minimum Distribution

Your withdrawal must satisfy the required minimum distribution, which may be paid to you as a separate payment or as part of a larger withdrawal amount. When payment is made, you will receive a statement of the amount of the minimum distribution and the year to which it relates.

If you receive your account balance in a single payment (or an automatic cashout) made directly to you, that payment will satisfy the minimum distribution requirement for the year if it is paid before the applicable deadline.

Required minimum distributions cannot be transferred to an Individual Retirement Arrangement (IRA) or other eligible retirement plan. If you ask the TSP to transfer **all** of your single payment directly to an IRA, your minimum distribution will be subtracted from the payment and will be paid directly to you. The remainder will be transferred. If you ask to have **part** of your single payment transferred — but the portion to be paid to you does not satisfy your minimum distribution amount — the TSP will increase the portion paid to you. The remainder will be transferred according to your instructions.

If your account is withdrawn in monthly payments, the TSP will determine whether the total amount of the payments you will receive during the year will be large enough to satisfy the minimum distribution requirement for that year. If the total amount is not large enough, the TSP will increase each monthly payment accordingly. If you elect to have your monthly payments calculated based on the IRS life expectancy table, the payments made during the year will equal the amount of your required minimum distribution for the year. (See the example on page 6.)

If you ask the TSP to transfer all or part of your monthly payments to an IRA or other eligible retirement plan (which you can do if your payments are expected to be completed in less than 10 years), that year's monthly payments will be issued directly to you until you have satisfied the minimum distribution requirement for the year. The TSP will then transfer that year's remaining monthly payments according to your instructions.

If, when you begin receiving monthly payments, you have an unpaid required minimum distribution amount from a prior year (e.g., if 1997 is your first distribution year and you begin receiving monthly payments in January 1998), the TSP will pay the prior-year minimum distribution amount directly to you in a lump sum with your first monthly payment.

If you elect to withdraw your account in monthly payments, your required minimum distribution will be recalculated in January of each year based on your account balance at the prior year-end and on your life expectancy (determined by your age on your birthday in the current year). You will be sent a notice in January of each year explaining how the prospective payments for that year were calculated.

If you choose a TSP annuity, you will satisfy the minimum distribution requirement for any year if the annuity payments begin by the April 1 deadline. This means that, for the first year that you are age 70½ or older and no longer in Federal service, your annuity must be purchased by February of the following year in order to ensure that you receive a payment by April 1. The deadline is February because annuity payments do not begin until approximately 30 days after the purchase.

4. Tax Withholding

TSP payments made directly to you are subject to Federal income tax withholding. For withholding purposes, payments are classified as: **eligible rollover distributions**, **periodic payments**, or **non-periodic payments**. Different withholding rules apply to each type of payment.

Eligible Rollover Distributions

The following types of payments are **eligible rollover distributions** (except for the portion of the payment that is a required minimum distribution):

- Single payment of the entire TSP account
- In-service withdrawal payment
- Automatic cashout payment (i.e., payout of an account that is $3,500 or less)
- Monthly payments when the account is expected to be paid out in less than 10 years (except those you elect to have the TSP compute according to the IRS life expectancy table)
- A final single payment made after a series of monthly payments
- Amounts paid directly to you after the complete withdrawal of your TSP account (e.g., the payment of a late contribution to your account)
- Death benefits paid to the spouse of a deceased participant
- Court-ordered payments made to a spouse or former spouse.

The following tax withholding rules apply to eligible rollover distributions:

- The tax withholding on all eligible rollover distributions of $200 or more paid in a single year is 20%. **The 20% tax withholding cannot be waived;** however, you can request additional withholding. *(See "Other Tax Withholding Information.")* Note: The 20% is tax withholding, not actual tax paid. You may be entitled to a refund of a portion of this amount, or you may be required to pay an additional amount when you file your annual Federal income tax return.
- Before you receive an eligible rollover distribution, you can avoid withholding on all or any portion of it by asking the TSP to transfer that amount to an IRA or other eligible retirement plan. However, you **cannot** avoid the mandatory 20% withholding on any amount that you receive directly, even if you then roll it over to an IRA or other eligible retirement plan. *(See Section 5 of this notice.)*
- You may elect to have an amount withheld in addition to the 20% withholding by completing Line 3 on IRS Form W-4P, Withholding Certificate for Pension or Annuity Payments, and submitting it to the TSP Service Office at the address provided at the end of this notice. Line 1 and Line 2 are not valid elections for this type of payment.

- There is no withholding on eligible rollover distributions that are less than $200. (The $200 minimum applies to the total amount of all payments expected to be made in a single tax year.) However, you can still elect withholding for any eligible rollover distribution of less than $200 by completing Line 3 on Form W-4P. Payments that are less than $200 are also eligible to be transferred by the TSP or rolled over to an IRA or other eligible plan.

Periodic Payments

The following TSP payments are **periodic payments**:

- Monthly payments when the account is expected to be paid out in 10 years or more
- Monthly payments computed according to the IRS life expectancy table.

Withholding for periodic payments is based on the assumption that you are a married individual claiming three withholding allowances, unless the TSP Service Office receives from you Form W-4P, Withholding Certificate for Pension or Annuity Payments. Withholding will be calculated using the most current IRS Circular E or IRS Publication 15-A, Employer's Supplemental Tax Guide. The IRS annually updates the instructions to Form W-4P to show the minimum periodic payment amounts on which there will be withholding.

If you submit Form W-4P, you may elect:

– to have no Federal income tax withheld by completing Line 1 on Form W-4P; or

– to have Federal income tax withheld based on the allowances and marital status that you indicate on Line 2 of Form W-4P. Withholding will then be computed using the tables referred to above; or

– to have an additional amount withheld by completing both Line 2 and Line 3 on Form W-4P. The amount that you specify on Line 3 will be added to the amount that would otherwise be withheld based on the election you made on Line 2.

Note: If you complete Line 2 or Line 3 on Form W-4P, you cannot also complete Line 1.

Your withholding election will remain in effect until the TSP Service Office receives a new Form W-4P from you. A new withholding election will be effective beginning with the first payment after the form is processed. You may change elections concerning your withholding as often as you wish. Additional copies of Form W-4P are available from your local IRS office or from the TSP Service Office.

Note: Payments you receive from an annuity that the TSP purchases for you are also periodic payments. You will receive information about making a withholding election from the annuity provider at the time your annuity is purchased.

Non-Periodic Payments

The following types of TSP payments are **non-periodic payments**:

- Required minimum distributions, paid either separately or together with an eligible rollover distribution, a periodic payment, or a TSP annuity purchase
- Death benefit payments made to someone other than the surviving spouse of the participant
- Court-ordered payments made to someone other than the spouse or former spouse of the participant.

The TSP will withhold 10% for Federal income tax from your payment unless the TSP Service Office receives from you Form W-4P, Withholding Certificate for Pension or Annuity Payments.

If you submit Form W-4P, you may elect:

– to have no Federal income tax withheld, by completing Line 1 on Form W-4P; or

– to have an amount withheld in addition to the 10% by completing Line 3 on Form W-4P.

Note: You may not complete both Line 1 and Line 3 on Form W-4P. Line 2 on Form W-4P is not a valid election for this type of distribution.

Other Tax Withholding Information

You may request to waive tax withholding from a periodic or a non-periodic payment. You can do so by completing Line 1 on Form W-4P. If you submit Form W-4P with Line 1 completed and you subsequently decide you do not want to waive the tax withholding, you may revoke this decision by completing another Form W-4P and writing "Revoked" on Line 1 of the form. Taxes will then be withheld at the rate set by law.

If you do not have enough Federal income tax withheld from your payment, you may be responsible for paying estimated tax. You may also incur penalties under the IRS estimated tax rules if your withholding and estimated tax payments are not sufficient.

The TSP does not withhold for state, city, county, or other local income tax. Therefore, you should consult your tax advisor or relevant state or local taxing authorities regarding any potential tax obligations.

You can request additional withholding for a periodic or non-periodic payment or for an eligible rollover distribution. To do so, complete Line 3 on IRS Form W-4P. (Line 1 and Line 2 are not valid elections for this type of payment.)

If you complete Line 3 on Form W-4P and the total amount of the withholding equals or exceeds the amount of your payment, your entire payment will be withheld.

Special Note for Nonresident Aliens and Beneficiaries of Nonresident Aliens

Special tax withholding rules apply to TSP payments made to nonresident aliens and beneficiaries of nonresident aliens. For a detailed explanation of how these rules apply to you, please read the TSP tax notice "Tax Treatment of Thrift Savings Plan Payments to Nonresident Aliens and Their Beneficiaries." You can obtain a copy of the notice from the TSP Web site (www.tsp.gov) or by calling or writing the TSP Service Office.

A nonresident alien is an individual who is neither a citizen nor a resident of the United States. For purposes of residency, the United States includes the 50 states and the District of Columbia; it does not include U.S. possessions such as Guam, Puerto Rico, or the Virgin Islands.

5. Transferring or Rolling Over Your Eligible Rollover Distribution

A **transfer** occurs when you instruct the TSP to send all or part of your payment directly to an IRA or other eligible retirement plan instead of issuing it to you.

A **rollover** occurs when the TSP makes a distribution to you (which includes the amount of the check you receive plus the amount withheld) and you deposit any part of that distribution into an IRA or other eligible retirement plan within 60 days of the date you receive it.

If your withdrawal payment is considered an eligible rollover distribution, you can transfer or roll over all or any part of the payment to an IRA or other eligible retirement plan as explained below. **You cannot transfer or roll over required minimum distribution payments.**

An **eligible retirement plan** is: an IRA, which can be either an Individual Retirement Account or an Individual Retirement Annuity (other than an endowment contract); a qualified pension, profit-sharing, or stock bonus plan; or an annuity plan described in section 403(a) of the Internal Revenue Code. You cannot transfer or roll over your payment into a "Roth" IRA (which became available January 1, 1998).

By transferring or rolling an amount over to an IRA or other eligible retirement plan, you can postpone paying tax on that amount until you receive the money from the IRA or other eligible retirement plan. The mandatory 20% Federal income tax withholding does not apply to an amount that the TSP transfers directly to an IRA or other eligible retirement plan; **however, it does apply to any payment made directly to you, even if you then roll it over.**

In deciding whether to choose a transfer or a rollover, you should consider the following:

- You must pay Federal income tax on any part of a payment that you do not transfer or roll over.
- Because all eligible rollover distributions of $200 or more made directly to you are subject to mandatory 20% withholding, you will have to pay tax on the amount withheld — even if you roll over the amount you receive — unless you deposit personal funds into your IRA or other plan equal to the amount withheld. (If you do this, you may receive a refund of taxes withheld, but you cannot wait until you receive a refund of withholding to complete a rollover.)

Therefore, if you do not want to use personal funds to make up the amount withheld, you should choose to have the TSP transfer your account to your IRA (or other plan) directly, instead of rolling it over to your IRA (or other plan) yourself.

6. Tax Reporting

The TSP will report to the IRS all withdrawal payments (including minimum distributions) made directly to you, as well as all transfers made to IRAs or other eligible retirement plans. We will also report TSP payments and transfers to the state in which our records show you resided at the time the payments were made, if that state imposes an income tax.

Annuity purchases are not reported by the TSP to the IRS or your state of residence. Payments made under an annuity that the TSP purchases for you will be reported by the annuity provider.

In January of the year that follows your TSP payment, the TSP will send you Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. **You should keep the TSP Service Office informed of any changes in your address until this tax information is sent to you.**

You should include the amount reported on Form 1099-R as income on your individual income tax returns for the year in which payments were made. However, you should then exclude from adjusted gross income on your return any amounts that were transferred or rolled over. If an amount was withheld for Federal income tax, you should also attach a copy of Form 1099-R to your Federal tax return.

7. Additional Tax Information

Taxable Distribution of TSP Loan Due to Separation from Service

If you do not repay your entire TSP loan before receiving your withdrawal and a taxable distribution of your TSP loan is declared, you may want to elect additional withholding from other payments made to you in the same year to cover the tax you must pay on your loan distribution. If the taxable loan distribution is declared because you separated from Federal service, you can deposit any amount up to the amount of the distribution into an IRA or other eligible retirement plan using your personal funds and thereby avoid current tax on that amount.

Five-Year or 10-Year Tax Option

If the payment you receive from the TSP qualifies as an **eligible lump sum distribution**, you may be able to lower the income tax you pay by using the 5-year or 10-year tax option.

An **eligible lump sum distribution** is one in which your total TSP account balance is distributed to you within one tax year (the calendar year for most taxpayers), regardless of whether this occurs in one or more payments. This means that an eligible lump sum distribution can include amounts which the TSP distributes to you in a series of monthly payments, in a subsequent payment made after your initial withdrawal, or in a taxable loan distribution — as long as all amounts in your account are distributed to you in the same tax year. However, if you transfer or roll over all or any part of your distribution, you cannot use the 5-year or 10-year tax option.

You may be able to use either the 5-year or 10-year tax option, depending upon your age when you receive your distribution. At present, if you use the 5-year tax option, your payment is taxed as if it were paid to you over five tax years, using the tax rates for single taxpayers in effect in the year payment is made. The 5-year tax option is only available if you are at least 59½ at the time you receive your distribution. (In 1996, Congress eliminated the 5-year tax option for tax years beginning after December 31, 1999.)

With the 10-year tax option, your payment is taxed as if it were paid to you over 10 tax years, but you must use the tax rates in effect in 1986. The 10-year tax option is available only if you were age 50 before January 1, 1986.

The following rules apply to the 5-year or 10-year tax option:

- To qualify for either type of tax option, you must have been an **active participant** in the TSP for at least five years before the year in which your distribution is made. You are considered an active participant if a contribution was made to your TSP account by either you or your agency during a year.
- If you decide to use the 5-year or 10-year tax option for your TSP distribution, you must also use it for any eligible lump sum distribution, excluding IRAs, which you receive in the same tax year from any other plan maintained by an employer.
- You can use the 5-year or 10-year tax option only once in your lifetime. This means that if you use it in one tax year, you cannot use it for a distribution received from the TSP or another plan in any subsequent year.

Election of either the 5-year or 10-year tax option is made by filing IRS Form 4972, Tax on Lump Sum Distributions, with your annual income tax return.

8. TSP Service Office Information

If you have any questions regarding this notice, please contact the TSP Service Office at (504) 255-6000 or TDD (504) 255-5113. If you choose to complete Form W-4P, Withholding Certificate for Pension or Annuity Payments, mail it to:

TSP Service Office
National Finance Center
P.O. Box 61500
New Orleans, LA 70161-1500

Calculating a Minimum Distribution for Payments Based on Life Expectancy

Mary Smith retired from Federal service in 1994. She became age 70½ in February of 1998 (her first distribution year), and begins withdrawing her TSP account in monthly payments in March 1999. Ms. Smith chooses to withdraw her account in monthly payments based on life expectancy. Ms. Smith must receive her 1998 required minimum distribution **by April 1, 1999**; the monthly payments made during 1999 will satisfy her 1999 minimum distribution requirement.

Ms. Smith's Minimum Distribution Calculation:

In **January 1999**, the TSP record keeper sends Ms. Smith a notice informing her that she must withdraw her account (or begin monthly payments or a TSP annuity) and that minimum distribution requirements will affect her withdrawal payment.

In **March 1999**, Ms. Smith receives a check for $1,448.92. This check includes Ms. Smith's **entire** first year (1998) minimum distribution payment of $1,307.19 and the **first payment** ($141.73) from her monthly payments based on life expectancy. Her payments were determined by dividing her TSP account balance as of December 31 of **1997**, the year before her first distribution year, by the multiple from IRS Table V for her age, as follows:

STEP 1: Determine Ms. Smith's first year minimum distribution payment.

TSP account balance as of 12/31/97	$20,000.00
Ms. Smith's age on her birthday in the year she became 70½*	71
Multiple from IRS Table V	15.3
Total **first year** minimum distribution ($20,000.00 ÷ 15.3)	$1,307.19

STEP 2: Determine Ms. Smith's monthly payments based on life expectancy.**

TSP account balance as of 12/31/98 (assuming a 10% rate of return)	$22,000.00
Minus 1998 minimum distribution	–1,307.19
Adjusted balance	$20,692.81
Ms. Smith's age on her birthday in 1999	72
Multiple from IRS Table V	14.6
Total **second year** monthly payments ($20,692.81 ÷ 14.6)	$1,417.32
Number of monthly payments she will receive in 1999 (March – December)	10
Each monthly payment ($1,417.32 ÷ 10)	$141.73

These payments (the first and second year payments) are reported to the IRS in January 2000 as income received in 1999. The applicable payments are also reflected in Ms. Smith's May and November 1999 TSP Participant Statements.

* Ms. Smith's birthday is later than June 30, so she became 71 in 1998.

** The multiples from IRS Table V are used both to calculate monthly payments based on life expectancy and to calculate the minimum distribution. Therefore, the total of Ms. Smith's monthly payments for any year will be the same as that year's total required minimum distribution amount.

If Ms. Smith chose another form of monthly payments (i.e., monthly payments for a specific dollar amount or number of months), each monthly payment would be increased if the total scheduled to be paid during the year was not sufficient to satisfy that year's minimum distribution requirement.

IRS TABLE V

ORDINARY LIFE ANNUITIES
ONE LIFE — EXPECTED RETURN MULTIPLES

Age	Multiple	Age	Multiple
70	16.0	93	4.1
71	15.3	94	3.9
72	14.6	95	3.7
73	13.9	96	3.4
74	13.2	97	3.2
75	12.5	98	3.0
76	11.9	99	2.8
77	11.2	100	2.7
78	10.6	101	2.5
79	10.0	102	2.3
80	9.5	103	2.1
81	8.9	104	1.9
82	8.4	105	1.8
83	7.9	106	1.6
84	7.4	107	1.4
85	6.9	108	1.3
86	6.5	109	1.1
87	6.1	110	1.0
88	5.7	111	0.9
89	5.3	112	0.8
90	5.0	113	0.7
91	4.7	114	0.6
92	4.4	115	0.5